

Budgetary Financial Policies

Amended 5/2007

Financial policies set forth the basic framework for the fiscal management of the City. Policies, which are reviewed and approved by the City Council, will be updated and implemented annually to ensure that the City maintains a sound financial position in each of the City's fund and account groups. These policies are developed within the parameters set forth in the City's Charter, Article VIII. The policies will provide guidelines for short and long term decision making.

Operating Funds Budget Policies

1. The City Manager prior to August first of each year shall prepare and submit to the City Council, the annual budget covering the next fiscal year. A budget message shall be prepared in accordance with City Charter requirements.
2. The budget of each fund should be balanced with appropriations not exceeding current year revenues, transfers-in, and available fund balance reserves.
3. Transfers between funds shall only be permitted to the extent that the basis and justification of the transfer can be quantified. Periodic transfers are made for administrative cost reimbursements to the General Fund or Internal Service Funds. In addition, fund transfers may occur when surplus fund balances are used to support non-recurring capital expenses.
4. One-time revenues in operating funds will not be used for funding on going appropriations. One-time revenues shall only be used to fund capital improvements, capital equipment, or other one-time appropriations.

General Fund Revenue Policies

1. All new programs or service enhancements shall be implemented according to Council direction as a part of the budget process. In the event additional revenues are required to implement a new program or service enhancement, a cost benefit analysis of the program change will be conducted by the staff to determine if a new revenue source or increase in existing revenue will be needed. The analysis shall include the applicability of user fees as a source of revenue to support the new or expanded program. The maintenance and operation portion of the General Fund ad valorem tax rate shall only be raised after thorough review of other revenue sources and proposed appropriation.
2. Through the proposed budget the City shall strive to develop a balance in major revenue sources to protect the financial stability of the City in the event of severe fluctuation in the national and/or local economy. This balance will maintain a diversified and stable revenue system. The major revenue sources of the General Fund are Sales Tax, Ad Valorem taxes and all other charges for services.
 - a. Property Taxes – the Rockwall Central Appraisal District prepares the calculation of the Effective and Rollback tax rates each year. Historically the City has experienced an approximate 98-99% collection factor during the fiscal year. The City Manager will present the budget to the Council employing a 98% collection factor for current year property taxes. This collection factor may be reduced if significant economic conditions warrant.
 - b. Sales Taxes – The City Manager will review historic trends and detailed sales tax data to determine appropriate levels for projecting sales tax revenue. National and regional

economic cycles shall be considered and may cause staff to adjust projections downward from this level. Any excess revenues collected above projections will be transferred to a Capital Projects fund to be used to fund future capital projects or debt service payments.

3.Chargesc. Charges for services shall be reviewed and updated at least every three years. The review will consider the cost of providing the service and a review of similar charges in comparable cities in the region.

4.3.Other rRevenues shall be projected based on actual collections from the preceding year and estimated collections of the current fiscal year, while taking into account known circumstances that will impact revenues for the new fiscal year. Revenue projections will be made conservatively.

Utility Fund Revenue Policies

1. A cost of service rate study will be conducted to determine a benchmark rate necessary to fund the utility eachfor 35 years. Updates to the study will be performed annually to ensure that the rates in effect will fund the utility budgets.
2. Capital improvements and participation in the oversizing of utility facilities during the development of the City required as a result of growth, should be paid in part through capital recovery fees that are reviewed and adjusted within the requirements of the statute allowing their utilization.
3. Utility Fund revenues are budgeted on the basis of a normal year, not on the basis of forecasted extreme wet or dry years. The City will make every reasonable effort to ensure accurate measurement of water purchased and sold.
4. The City shall consider the appropriateness of using contract revenue bonds issued through the NTMWD when considering the issuance of revenue bonds.

Debt Service Fund Revenue and Expenditure Policies

1. The City will issue only multi-year debt and the debt will be used only to fund capital projects that cannot be funded by current revenues except as may be otherwise required by an emergency or other unforeseen circumstance.
2. To minimize interest costs on issued debt, The City will structure debt with maturities not to exceed 20 years. Longer issues may be authorized in the unusual case of a substantially longer life or other extenuating circumstances. The final maturity date for any multi-year debt will not exceed the expected useful life of the capital improvement so financed.
3. An evaluation of existing and projected overlapping and direct debt shall be reviewed by the Council as well as any committee appointed by the Council to develop recommendations for proposed new debt for the City. Estimates of growth shall be conservative and consideration will be given as to the City's future ability to repay the debt and maintain an ability to issue additional unforeseen debt.
4. The city may utilize Contractual Obligations for large equipment and vehicle purchases after a review of available resources. The City recognizes Contractual Obligations as an appropriate tool for these acquisitions.

Special Revenue Funds Revenue and Expenditure Policies

1. Recreation Development Fund revenues are received from marina lease agreements and are
 1. to be used to fund expenditures for capital projects related to park and recreation improvements.
 2. Street Assessment Funds revenue sources includes assessment payments from property owners, and payments in lieu of assessments from developers. These funds will only be used for like capital projects or to repay existing debt for constructed projects, as approved by the City Council, unless otherwise addressed in the authorizing ordinance or agreement for such revenues.
 3. Fire Equipment Fund revenue sources include donations and contract payments from Rockwall County for fire protection services. Funds received will be used for the purchase of capital equipment for the Fire Department.

Fund Balance Policies

1. The proposed General Fund budget shall be submitted to the City Council with a fund balance reserve reserve of not less than 3 months of recurring operating appropriations. It is the goal of the Council to work toward an average fund balance of 5 months of recurring operating appropriations, not to exceed 7 months of recurring operating appropriations. Should the fund balance at the end of a fiscal year exceed the average of 5 months, the City Council may elect to transfer a portion of the fund balance to a capital projects fund to pay for future capital projects.
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2. Debt Service Funds balances shall not have a balance that exceeds 15% of the general obligation debt outstanding principal. Debt service fund balances in excess of this requirement may be drawn down to be used to reduce ad valorem tax revenue for bond principal and interest payments on existing or new debt. The fund balance must remain sufficient to protect against unexpected downturns in property tax collections included in the budget. Consideration will be given to the impact such use would have on future tax rate calculations.
3. All other fund balances shall be maintained at a level necessary to ensure stability in the event of a decline in revenues dedicated to that fund. Fund balance requirements shall always be in agreement with bond covenants.
6. Fund balances which exceed the minimum levels established for each fund may be
 4. appropriated for non-recurring capital projects or programs or in emergency situations.

Operating Fund Expenditures

1. Operating fund expenditures shall be accounted for and budgeted in the six major categories:
 - a. Personnel Services
 - b. Contractual
 - c. Supplies
 - d. Operational
 - e. Utilities
 - f. Capital Outlay

2. The proposed budget shall appropriate sufficient funds for operations to maintain existing quality and scope of City services and where appropriate include funds for expanded or new services.
3. The City will regularly examine programs and services in order to reduce operating cost or enhance service levels without cost increases.
4. Population estimates where employed in the budget shall be based on the North Central Texas Council of Governments (COG) population projections released April 1 of each year. The COG population will be projected forward by including actual housing starts data from January 1 to June 1 and projected housing starts from July 1 to December 31 of the current year. Housing start projections will be based on available data from the City's building permits and Builder interviews.

- 4.5. Personnel service expenditures will reflect the minimum staffing to provide approved quality and scope of City services. The City reasonably expects to experience a low staff turnover rate during any given year. In order to recognize periods of less than full employment and the recruiting period, the City will recognize a vacancy savings factor of \$15,000 per new position in the proposed budget.
6. The City will provide a competitive compensation and benefit plan to attract and retain quality employees in order to provide high quality service
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- 6.7. Supply expenditures shall be sufficient to ensure optimal productivity of City employees. Maintenance expenditures shall be sufficient to ensure a relatively stable level of maintenance expenditures each budget year and to enhance and prolong the life of capital equipment and property.
- 7.8. Expenditures for new capital equipment shall be made only to enhance employee productivity, improve quality of service, or expand scope of services. The City's Vehicle Replacement Policy guidelines will be considered when determining mobile equipment budgets.
- 8.9. The City will evaluate the methods for providing public services in order to reduce operating expenditures and/or enhance quality and scope of services without increased costs.

Capital Project Expenditures

1. The City will develop a multi-year plan for capital projects, which identifies all projects likely to be constructed within a five-year period. The multi-year plan will reflect for each project the likely funding source and timeframe for completion.
2. Capital projects will be constructed to:
 - a. Protect or improve the community's quality of life.
 - b. Protect or enhance the community's economic vitality.
 - c. Support and service new citizens and development.
 - d. Provide significant rehabilitation of City infrastructure for sustained service.